

# **PACE FUND**

**FINANCIAL STATEMENTS  
JUNE 30, 2009 AND 2008**

## **PACE FUND**

### Table of Contents

---

	<b><u>Exhibit</u></b>	<b><u>Page</u></b>
<b>INDEPENDENT AUDITOR’S REPORT</b>		1
<b>MANAGEMENT’S DISCUSSION AND ANALYSIS</b>		3
<b>FINANCIAL STATEMENTS</b>		
Balance Sheets		7
Statements of Revenues, Expenditures and Changes in Fund Balance		8
Notes to Financial Statements		9
<b>SUPPLEMENTARY INFORMATION</b>		
Combining Balance Sheets		13
Combining Statements of Revenues, Expenditures and Changes in Fund Balance		15
<b>EXHIBITS</b>		
Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Required by <i>Government Auditing Standards</i>	A-1	17
Auditor’s Specific Comments Requested by the North Dakota Legislative Audit and Fiscal Review Committee	A-2	19
Independent Auditor’s Communication to the Industrial Commission of North Dakota	B-1	21

---

**INDEPENDENT AUDITOR'S REPORT**

---

The Industrial Commission  
State of North Dakota  
Bismarck, North Dakota

We have audited the accompanying financial statements of the governmental activities of the PACE Fund as of June 30, 2009 and 2008, as listed in the table of contents. These financial statements are the responsibility of the PACE Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

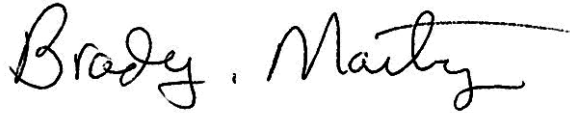
As discussed in Note 1, the financial statements present only the PACE Fund and do not purport to, and do not, present fairly the financial position and results of the operations and cash flows of the State of North Dakota, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the PACE Fund as of June 30, 2009 and 2008, and the results of its operations for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 17, 2009, on our consideration of the PACE Fund's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 6 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The combining financial statements on pages 13 through 16 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Brady, Martz". The signature is written in a cursive, flowing style with a horizontal line extending from the end.

**BRADY, MARTZ & ASSOCIATES, P.C.**

September 17, 2009

**PACE FUND  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2009 AND 2008**

---

The management's discussion and analysis of the PACE Fund's financial performance provides an overview of the PACE Fund's financial activities for the fiscal year ended June 30, 2009 and 2008. Please read it in conjunction with the financial statements of the PACE Fund.

**FINANCIAL HIGHLIGHTS:**

The purpose of the PACE (Partnership in Assisting Community Expansion) Fund is to assist North Dakota communities in expanding their economic base. The program is available to all cities and counties throughout North Dakota for qualified projects. These loans are made by a lead financial institution in participation with Bank of North Dakota.

The 2007 Legislature approved the following appropriations and transfers from the above identified PACE programs during the biennium July 1, 2007 through June 30, 2009:

PACE	\$8,000,000	Legislative Appropriation
	(3,000,000)	Transfer to Flex PACE
	836,356	Carry Forward from Previous Allocation
	<u>920,676</u>	Adjustments on Defaulted or Prepaid PACE Loans
	\$6,757,032*	
Flex	\$3,000,000	Legislative Appropriation – Transfer from PACE
	<u>129,497</u>	Adjustments on Defaulted or Prepaid Flex PACE Loans
	\$3,129,497	
Biofuels	\$4,200,000	Legislative Appropriation
	801,964	Carry Forward from Previous Allocation
	23,139	Adjustments on Defaulted or Prepaid Biofuels PACE Loans
	( 30,000)	Transfer per HB 1515 to Biomass Incentive Research Fund
	<u>( 970,000)</u>	Transfer per HB 1515 to Biomass Incentive Research Fund
	\$4,025,103	

\*HB 1018 allowed for the possible transfer of \$1 million of PACE funds to the ND Development Fund. This transfer was not made.

\$2 million of the \$8 million PACE appropriation has been earmarked for Flex PACE for the 2007-2009 biennium. An additional \$1,000,000 was transferred from PACE to Flex PACE in January 2009.

During the 2007 Legislative Session, House Bill 1515 was passed establishing the Biomass Incentive and Research Program. This was set up as a separate fund, not a continuing appropriation. The funding source for the Biomass Incentive and Research Fund is \$1,000,000 from the Beginning Farmer Revolving Fund and \$1,000,000 from the Biofuel Partnership in Assisting Community Expansion Fund. \$30,000 was transferred in September 2007 to finance the Department of Agriculture request for dollars to support organic agriculture initiatives and programs. On June 26, 2009 the Industrial Commission moved to approve the recommendation that up to \$1,660,710 be transferred from the special funds (\$970,000 from Biofuel PACE Fund and \$690,710 from the Beginning Farmer Revolving Loan Fund) to cover the costs of the Biomass Incentive Program with the understanding that if the program applications are not approved the uncommitted funds will be returned to the Bank of North Dakota special funds. The actual transfer made was \$970,000 from Biofuel PACE and \$110,000 from Beginning Farmer Revolving Loan Fund.

## MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

The following is a recap of the PACE Fund activity for fiscal years ended June 30, 2008 and June 30, 2009:

	PACE	Flex PACE	BioFuels PACE
Current number of loans	219	53	20
Total outstanding principal	\$ 52,111,576	\$ 12,129,968	\$ 3,351,347
Current remaining buydown to be paid by Fund	\$ -	\$ -	\$ -
Loans funded in year ended June 30, 2008	26	13	9
Original loan amount funded	\$ 22,800,750	\$ 6,013,165	\$ 3,667,478
Buydown	\$ 3,117,072	\$ 710,679	\$ 998,708
Buydown not disbursed	\$ 385,282	\$ -	\$ -
Loans funded in year ended June 30, 2009	21	24	11
Original loan amount funded	\$ 14,488,965	\$ 9,094,960	\$ 2,664,899
Buydown	\$ 2,087,779	\$ 1,308,712	\$ 847,930
Buydown not disbursed	\$ 177,807	\$ 144,286	\$ -
Loans pending as of June 30, 2009	8	4	3
Loan commitments outstanding	\$ 3,552,000	\$ 1,165,294	\$ 2,779,000
Buydown	\$ 855,432	\$ 259,652	\$ 449,875
Available buydown as of June 30, 2009	\$ 2,288,844	\$ 706,168	\$ 1,728,590

### REQUIRED FINANCIAL STATEMENTS:

The PACE Fund is a special revenue fund and uses the modified accrual basis of accounting. The basic financial statements include the balance sheet and the statement of revenues, expenditures and changes in fund balances. The balance sheet provides readers the assets and liabilities of the PACE Fund, with the differences between the two reported as fund balances. The statement of revenues, expenditures and changes in fund balances identifies the operating performances of the PACE Fund for the year.

## MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

---

### CONDENSED BALANCE SHEETS JUNE 30, 2009 AND 2008

(In Thousands)

	<u>2009</u>	<u>2008 (restated)</u>
<b>ASSETS</b>		
Cash deposits	<u>\$ 20,270</u>	<u>\$ 23,411</u>
<b>LIABILITIES</b>		
Accrued interest payable	\$ 290	\$ 274
Due to other state agencies	<u>970</u>	<u>-</u>
Total liabilities	<u>1,260</u>	<u>274</u>
<b>FUND BALANCE</b>	<u>19,010</u>	<u>23,137</u>
Total liabilities and fund balance	<u>\$ 20,270</u>	<u>\$ 23,411</u>

#### *Fund Balance*

The Fund Balance represents funds available to the PACE program. Fund balance decreased by \$4,127 or a 17.8% decrease.

## MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

### CONDENSED STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES YEARS ENDED JUNE 30, 2009 AND 2008

	(In Thousands)	
	<u>2009</u>	<u>2008 (restated)</u>
REVENUES - Interest income	\$ 343	\$ 373
EXPENDITURES - Buydown interest	<u>3,500</u>	<u>3,291</u>
EXPENDITURES OVER REVENUES	(3,157)	(2,919)
OPERATING TRANSFER IN / OUT	<u>(970)</u>	<u>12,170</u>
NET CHANGE IN FUND BALANCE	(4,127)	9,251
FUND BALANCE, BEGINNING OF YEAR, AS ORIGINALLY STATED	23,137	14,150
PRIOR PERIOD ADJUSTMENT	<u>-</u>	<u>(265)</u>
FUND BALANCE, BEGINNING OF YEAR, RESTATED	<u>23,137</u>	<u>13,886</u>
FUND BALANCE, END OF YEAR	<u>\$ 19,010</u>	<u>\$ 23,137</u>

#### *Expenses*

Buydown interest expense is the Fund's share of the periodic payments made to the trustee to cover the interest rate buydown.

#### *Operating Transfers In/Out*

During the year ended June 30, 2009, the PACE Loan Program transferred \$1,000,000 to the Flex PACE Program.

During the year ended June 30, 2008, the legislature appropriated \$8,000,000 to PACE and \$4,200,000 to BioFuels PACE for the 2007 – 2009 Biennium. During the year ended June 30, 2008, \$30,000 was transferred from the BioFuels PACE program to Biomass Incentive and Research per House Bill 1515.

#### CONTACTING THE FUND'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, customers and creditors with a general overview of the PACE Fund's finances and to demonstrate the PACE Fund's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Bank of North Dakota, P.O. Box 5509, Bismarck, North Dakota 58506-5509.



**PACE FUND**  
**BALANCE SHEETS**  
**JUNE 30, 2009 AND 2008**

	<u>2009</u>	<u>2008 (restated)</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash deposits at the Bank of North Dakota	<u>\$ 20,270,395</u>	<u>\$ 23,410,534</u>
<b>LIABILITIES AND FUND BALANCE</b>		
<b>LIABILITIES</b>		
Accrued interest payable	\$ 290,263	\$ 273,549
Due to other state agency	<u>970,000</u>	<u>-</u>
Total liabilities	<u>1,260,263</u>	<u>273,549</u>
<b>FUND BALANCE</b>		
Reserved for interest buydown commitments	14,576,793	13,554,060
Designated for future interest buydown commitments	<u>4,433,339</u>	<u>9,582,925</u>
Total fund balance	<u>19,010,132</u>	<u>23,136,985</u>
Total liabilities and fund balance	<u>\$ 20,270,395</u>	<u>\$ 23,410,534</u>

**PACE FUND****STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
YEARS ENDED JUNE 30, 2009 AND 2008**

	<u>2009</u>	<u>2008 (restated)</u>
REVENUES		
Interest income	\$ 343,003	\$ 372,848
EXPENDITURES		
Buydown interest	<u>3,499,856</u>	<u>3,291,379</u>
EXPENDITURES OVER REVENUES	(3,156,853)	(2,918,531)
OTHER FINANCING SOURCES (USES)		
Operating transfer in	-	12,200,000
Operating transfer out	<u>(970,000)</u>	<u>(30,000)</u>
NET CHANGE IN FUND BALANCE	(4,126,853)	9,251,469
FUND BALANCE, BEGINNING OF YEAR, AS ORIGINALLY STATED	23,136,985	14,150,277
PRIOR PERIOD ADJUSTMENT	<u>-</u>	<u>(264,761)</u>
FUND BALANCE, BEGINNING OF YEAR, RESTATED	<u>23,136,985</u>	<u>13,885,516</u>
FUND BALANCE, END OF YEAR	<u>\$ 19,010,132</u>	<u>\$ 23,136,985</u>

**PACE FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2009 AND 2008**

---

**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

*Nature of Operations*

Section 6-09.14 of the North Dakota Century Code (NDCC) established the Partnership in Assisting Community Expansion (PACE) Fund. The fund is revolving and all moneys transferred into the fund, interest on fund moneys and payments to the fund are appropriated for the purposes of the fund. The Bank of North Dakota supervises and administers the PACE Fund. The purpose of the PACE Fund is to buydown the interest rate on loans made by a lead financial institution in participation with the Bank of North Dakota. The Bank of North Dakota's participation may not exceed 80% nor be less than 50% of the total loans. If the lenders approve the loan and there is evidence of the community's commitment and ability to fund its portion of the buydown, the fund's participation in the buydown is approved as part of BND's loan approval process.

The PACE programs recognize two rates: Yield Rate and Borrowing Rate. The yield rate is the rate charged by the lead lender for the loan. The borrowing rate is the rate charged to the borrower. The interest differential is the difference between the yield rate and the borrowing rate. This difference is paid to the lead lender under an agreement among the lead lender, the borrower, the community (if required) and the Bank of North Dakota on behalf of the PACE Fund. The PACE fund provides buydown dollars, to the extent available, to reduce the borrower's interest rate by a maximum of 5% and may not be less than one percent (1%).

*PACE Program*

Loans eligible for the buydown are loans to new or expanding North Dakota businesses using the proceeds to purchase real property or equipment, expand their facility, or fund permanent working assets. The loan funds cannot be used to refinance any existing debt or for the relocation of business within North Dakota. The community shall determine the amount of the interest rate buydown and apply to the Bank of North Dakota for participation from the PACE Fund. The funds for the community's portion of the buydown may come from local development corporation contributions, community funds, future dedicated tax programs, or any other community source. The maximum amount from the fund in the interest rate buydown may not exceed \$300,000 per borrower in any biennium. The communities within the state are given a percentage factor to determine the PACE Fund's maximum participation in the interest rate reduction. These funds are on deposit with BND's Trust Department which has been appointed to act as agent for the interest rate reduction fund.

*Flex PACE Program*

Flex PACE was designed to provide interest buydown to non-PACE qualifying businesses in which the community determines eligibility and accountability standards. Flex PACE targets essential community businesses without the job creation requirement. The communities within the state are given a percentage factor to determine the PACE Fund's maximum participation in the interest rate reduction. The maximum buydown amount is \$150,000 per borrower in any biennium. These funds are on deposit with BND's Trust Department which has been appointed to act as agent for the interest rate reduction fund.

## NOTES TO FINANCIAL STATEMENTS - CONTINUED

---

### *Biofuels PACE Program*

Biofuels is established in N.D.C.C 17-03 to provide interest buy-down to qualified North Dakota businesses which are defined as biodiesel and ethanol production facilities, livestock operations, biofuels retailers, and condominium grain handling facilities. The maximum interest buy-down per borrower for each eligible use is \$500,000 for a biodiesel or ethanol project, \$250,000 for a livestock operation, \$10,000 for a single biofuels retailer, and \$50,000 for a condominium grain handling facility. The cumulative interest rate buy down amount available for biofuels retailers and condominium grain handling facilities is limited to \$250,000 each for a total of \$500,000. The Biofuels PACE Loan Program does not require a community interest buy down match or job creation. Recipients of Biofuels PACE are not eligible for regular PACE or Flex PACE funds.

The 2009 North Dakota Legislature passed Senate Bill 2291 which expands the Biofuels program to include biodigester systems.

### *Reporting Entity*

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, the PACE Fund should include all component units over which the PACE Fund exercises such aspects as (1) appointing a voting majority of an organization's governing body and (2) has the ability to impose its will on that organization or, (3) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the PACE Fund.

Based on the criteria of GASB Statement No. 14, no organizations were determined to be part of the reporting entity. The PACE Fund is included as part of the primary government of the State of North Dakota's (State) reporting entity.

### *Accounting Standards and Adoptions of Accounting Policies*

The PACE Fund follows the pronouncements of the Governmental Accounting Standards Board, which is the nationally accepted standard setting body for establishing generally accepted accounting standards for governmental entities.

### *Fund Accounting*

The PACE Fund is a special revenue fund and uses the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e. measurable and available). Measurable means the amount of the transaction can be determined. Available means due and collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The State has defined available as being collected within one year.

### *Basis of Accounting and Measurement Focus*

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Special revenue funds are accounted for using current financial resources measurement focus. With this measurement focus, generally only current assets and current liabilities are included on the balance sheet. Operating statements for these funds present increases (e.g., revenues and other financing sources) and decreases (e.g., expenditures and other financing uses) in net current assets.

## NOTES TO FINANCIAL STATEMENTS - CONTINUED

---

### NOTE 2 - PRIOR PERIOD ADJUSTMENT

The Fund has made a prior period adjustment to its July 1, 2008 financial statements to record the liability for accrued interest payable. The effect of this adjustment was to decrease fund balance by \$264,761. The effect on the June 30, 2008 financial statements was an increase in buydown interest expense of \$8,788, an increase in accrued interest payable of \$8,788 and a decrease in fund balance of \$273,549.

### NOTE 3 - DEPOSITS

The carrying value and bank balance of the PACE Fund's cash deposits at June 30, 2009 and 2008, was \$20,270,395 and \$23,410,534, respectively. Of the bank amounts, none were covered by depository insurance and all are uncollateralized. These monies are deposited in the Bank of North Dakota and are guaranteed by the State of North Dakota (NDCC Section 6-09-10).

#### *Custodial and Concentration of Credit Risk*

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the Fund will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The Fund does not have a formal policy that limits custodial credit risk for deposits. None of the Fund's deposits are covered by depository insurance. The Fund's deposits are uncollateralized and all of the deposits are deposited in the Bank of North Dakota and are guaranteed by the State of North Dakota (NDCC Section 6-09-10).

### NOTE 4 - INTERFUND TRANSACTIONS AND SUBSEQUENT EVENTS

During the year ended June 30, 2009, the PACE Loan Program transferred \$1,000,000 to the Flex PACE Program. During the year ended June 30, 2008, the PACE Loan Program transferred \$2,000,000 to the Flex PACE Program and \$30,000 was transferred from the Biofuels PACE Program.

The PACE Fund is supervised and administered by the Bank of North Dakota. All cash accounts are deposited in the Bank of North Dakota. The Bank of North Dakota pays interest to the PACE Fund on monies that have been disbursed to the funding agency. In lieu of an administrative fee, the Bank of North Dakota does not pay interest to the PACE Fund on the cash accounts held at the Bank of North Dakota that have not been disbursed to the funding agency. Interest buydowns amortized into interest expense totaled \$3,483,143 and \$3,282,591 for the years ended June 30, 2009 and 2008, respectively.

The 2007 North Dakota Legislature passed House Bill 1014 that provides an appropriation of \$8,000,000 from the North Dakota General Fund to the PACE Fund, \$4,200,000 to the Biofuels Program, and a \$801,964 transfer from the Biodiesel to the Biofuels Program during the biennium beginning July 1, 2007 and ending June 30, 2009.

The 2007 North Dakota Legislature passed House Bill 1018 that provides for an appropriation of up to \$1,000,000 from the PACE Fund to the North Dakota Commerce Department for the North Dakota Development Fund. This transfer was not made.

The 2007 North Dakota Legislature passed House Bill 1515 that provides for a transfer up to \$1,000,000 from the Biofuels PACE fund to the Biomass Incentive and Research Fund during the biennium beginning July 1, 2007 and ending June 30, 2009. \$30,000 was transferred in September 2007 to finance the Department of Agriculture request for dollars to support organic agriculture initiatives and programs. On June 26, 2009 the Industrial Commission moved to approve the recommendation that up to \$1,660,710 be transferred from the special funds (\$970,000 from Biofuel PACE Fund and \$690,710 from the Beginning Farmer Revolving Loan Fund) to cover the costs of the Biomass Incentive Program with the understanding that if the program applications are not approved the uncommitted funds will be returned to the Bank of North Dakota special funds. The actual transfer

## NOTES TO FINANCIAL STATEMENTS - CONTINUED

---

made was \$970,000 from Biofuel PACE and \$110,000 from Beginning Farmer Revolving Loan Fund. As of June 30, 2009, \$970,000 is owed to the Industrial Commission.

The 2009 North Dakota Legislature passed Senate Bill 2014 that provides an appropriation of \$8,000,000 from the North Dakota General Fund to the PACE Fund and a one-time appropriation of \$700,000 for the Biofuels PACE Fund during the biennium beginning July 1, 2009 and ending June 30, 2011. Senate Bill 2014 also allows Bank of North Dakota to transfer funds available in the PACE and Biofuels PACE programs to the Ag PACE program for providing additional funds for the disaster program, for the biennium beginning July 1, 2009, and ending June 30, 2011.

### NOTE 5- RESERVED FUND BALANCE

The Fund Balance that is reserved for legally contracted interest buydowns consists of the following:

	<u>2009</u>	<u>2008</u>
Monies that have been disbursed to the funding agency	\$ 12,689,736	\$ 11,873,994
Funds that have not been disbursed to the funding agency	<u>1,887,057</u>	<u>1,680,066</u>
Total reserved fund balance	<u>\$ 14,576,793</u>	<u>\$ 13,554,060</u>

### NOTE 6 - RISK MANAGEMENT

The PACE Fund is exposed to various risks of loss related to torts and errors and omissions. The PACE Fund is administered by the Bank of North Dakota and, therefore, is eligible to the same funds/pools established by the State for risk management issues. These include:

The 1995 Legislative Session established the Risk Management Fund (RMF), an internal service fund, to provide a self-insurance vehicle for funding the liability exposures of State Agencies resulting from the elimination of the State's sovereign immunity. The RMF manages the tort liability of the State, its agencies' employees, and the University System. All State agencies participating in the RMF and their fund contribution was determined using a projected cost allocation approach. The statutory liability of the State is limited to a total of \$250,000 per person and \$1,000,000 per occurrence.

The State Bonding Fund currently provides the Fund with blanket employee fidelity bond coverage in the amount of \$100,000. The State Bonding Fund does not currently charge any premium for this coverage.

There have been no significant reductions in insurance coverage from the prior year and settled claims resulting from these risks have not exceeded insurance coverage.

# **PACE FUND**

**PACE FUND**  
**COMBINING BALANCE SHEET**  
**JUNE 30, 2009**

	<u>PACE</u>	<u>Flex PACE</u>	<u>BioFuels PACE</u>	<u>Total</u>
<b>ASSETS</b>				
<b>CURRENT ASSETS</b>				
Cash deposits at the				
Bank of North Dakota	\$ 12,337,559	\$ 3,180,965	\$ 4,751,871	\$ 20,270,395
Due from Flex PACE Fund		-	-	-
	<u>\$ 12,337,559</u>	<u>\$ 3,180,965</u>	<u>\$ 4,751,871</u>	<u>\$ 20,270,395</u>
Total assets				
	<u>\$ 12,337,559</u>	<u>\$ 3,180,965</u>	<u>\$ 4,751,871</u>	<u>\$ 20,270,395</u>
<b>LIABILITIES AND FUND BALANCE</b>				
<b>CURRENT LIABILITIES</b>				
Accrued interest payable	\$ 214,374	\$ 53,015	\$ 22,874	\$ 290,263
Other liabilities	-	-	970,000	970,000
	<u>214,374</u>	<u>53,015</u>	<u>992,874</u>	<u>1,260,263</u>
Total liabilities				
	<u>214,374</u>	<u>53,015</u>	<u>992,874</u>	<u>1,260,263</u>
<b>FUND BALANCE</b>				
Reserved for legally				
contracted interest buydowns	10,048,715	2,474,797	2,053,281	14,576,793
Designated for interest				
buydown commitments	<u>2,074,470</u>	<u>653,153</u>	<u>1,705,716</u>	<u>4,433,339</u>
	<u>12,123,185</u>	<u>3,127,950</u>	<u>3,758,997</u>	<u>19,010,132</u>
Total fund balance				
	<u>12,123,185</u>	<u>3,127,950</u>	<u>3,758,997</u>	<u>19,010,132</u>
Total liabilities and fund balance	<u>\$ 12,337,559</u>	<u>\$ 3,180,965</u>	<u>\$ 4,751,871</u>	<u>\$ 20,270,395</u>



**PACE FUND**  
**COMBINING BALANCE SHEET**  
**JUNE 30, 2008 (RESTATED)**

	<u>PACE</u>	<u>Flex PACE</u>	<u>BioFuels PACE</u>	<u>Eliminations</u>	<u>Total</u>
<b>ASSETS</b>					
<b>CURRENT ASSETS</b>					
Cash deposits at the					
Bank of North Dakota	\$ 15,540,139	\$ 2,846,553	\$ 5,023,842	\$ -	\$ 23,410,534
Due from Flex PACE Fund	<u>77,838</u>	<u>-</u>	<u>-</u>	<u>(77,838)</u>	<u>-</u>
Total assets	<u>\$ 15,617,977</u>	<u>\$ 2,846,553</u>	<u>\$ 5,023,842</u>	<u>\$ (77,838)</u>	<u>\$ 23,410,534</u>
<b>LIABILITIES AND FUND BALANCE</b>					
<b>CURRENT LIABILITIES</b>					
Accrued interest payable	\$ 219,271	\$ 39,833	\$ 14,445	\$ -	\$ 273,549
Due to PACE Fund	<u>-</u>	<u>77,838</u>	<u>-</u>	<u>(77,838)</u>	<u>-</u>
Total liabilities	<u>219,271</u>	<u>117,671</u>	<u>14,445</u>	<u>(77,838)</u>	<u>273,549</u>
<b>FUND BALANCE</b>					
Reserved for legally					
contracted interest buydowns	10,527,827	1,721,178	1,305,055	-	13,554,060
Designated for interest					
buydown commitments	<u>4,870,879</u>	<u>1,007,704</u>	<u>3,704,342</u>	<u>-</u>	<u>9,582,925</u>
Total fund balance	<u>15,398,706</u>	<u>2,728,882</u>	<u>5,009,397</u>	<u>-</u>	<u>23,136,985</u>
Total liabilities and fund balance	<u>\$ 15,617,977</u>	<u>\$ 2,846,553</u>	<u>\$ 5,023,842</u>	<u>\$ (77,838)</u>	<u>\$ 23,410,534</u>

**PACE FUND****COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
YEAR ENDED JUNE 30, 2009**

---

	<u>PACE</u>	<u>Flex PACE</u>	<u>BioFuels PACE</u>	<u>Eliminations</u>	<u>Total</u>
REVENUES					
Interest income	\$ 292,067	\$ 48,422	\$ 2,514	\$ -	\$ 343,003
EXPENDITURES					
Buydown interest	<u>2,567,588</u>	<u>649,354</u>	<u>282,914</u>	<u>-</u>	<u>3,499,856</u>
EXPENDITURES OVER REVENUES	(2,275,521)	(600,932)	(280,400)	-	(3,156,853)
OTHER FINANCING SOURCES (USES)					
Operating transfer in	-	1,000,000	-	(1,000,000)	-
Operating transfer out	<u>(1,000,000)</u>	<u>-</u>	<u>(970,000)</u>	<u>1,000,000</u>	<u>(970,000)</u>
NET CHANGE IN FUND BALANCE	(3,275,521)	399,068	(1,250,400)	-	(4,126,853)
FUND BALANCE, BEGINNING OF YEAR	<u>15,398,706</u>	<u>2,728,882</u>	<u>5,009,397</u>	<u>-</u>	<u>23,136,985</u>
FUND BALANCE, END OF YEAR	<u>\$ 12,123,185</u>	<u>\$ 3,127,950</u>	<u>\$ 3,758,997</u>	<u>\$ -</u>	<u>\$ 19,010,132</u>

**PACE FUND****COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
YEAR ENDED JUNE 30, 2008 (RESTATED)**

	<u>PACE</u>	<u>Flex PACE</u>	<u>BioFuels PACE</u>	<u>BioDiesel PACE</u>	<u>Eliminations</u>	<u>Total</u>
REVENUES						
Interest income	\$ 323,163	\$ 42,905	\$ 6,780	\$ -	\$ -	\$ 372,848
EXPENDITURES						
Buydown interest	<u>2,632,617</u>	<u>487,258</u>	<u>171,504</u>	<u>-</u>	<u>-</u>	<u>3,291,379</u>
EXPENDITURES OVER REVENUES	(2,309,454)	(444,353)	(164,724)	-	-	(2,918,531)
OTHER FINANCING SOURCES (USES)						
Operating transfer in	8,000,000	2,000,000	5,220,404		(3,020,404)	12,200,000
Operating transfer out	<u>(2,000,000)</u>	<u>-</u>	<u>(30,000)</u>	<u>(1,020,404)</u>	<u>3,020,404</u>	<u>(30,000)</u>
NET CHANGE IN FUND BALANCE	3,690,546	1,555,647	5,025,680	(1,020,404)	-	9,251,469
FUND BALANCE, BEGINNING OF YEAR, AS ORIGINALLY STATED	11,926,071	1,203,802	-	1,020,404	-	14,150,277
PRIOR PERIOD ADJUSTMENT	<u>(217,911)</u>	<u>(30,567)</u>	<u>(16,283)</u>			<u>(264,761)</u>
FUND BALANCE, BEGINNING OF YEAR, RESTATED	<u>11,708,160</u>	<u>1,173,235</u>	<u>(16,283)</u>	<u>1,020,404</u>	<u>-</u>	<u>13,885,516</u>
FUND BALANCE, END OF YEAR	<u>\$ 15,398,706</u>	<u>\$ 2,728,882</u>	<u>\$ 5,009,397</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 23,136,985</u>

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN  
AUDIT OF FINANCIAL STATEMENTS REQUIRED BY GOVERNMENT AUDITING STANDARDS**

---

The Industrial Commission  
State of North Dakota  
Bismarck, North Dakota

We have audited the financial statements of the governmental activities of the PACE Fund, as of and for the year ended June 30, 2009, which collectively comprise the PACE Fund's basic financial statements and have issued our report thereon dated September 17, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

*Internal Control Over Financial Reporting*

In planning and performing our audit, we considered the PACE Fund's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the PACE Fund's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the PACE Fund's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the PACE Fund's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the PACE Fund's financial statements that is more than inconsequential will not be prevented or detected by the PACE Fund's internal control.

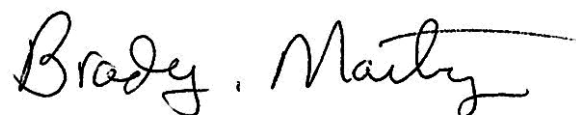
A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the PACE Fund's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

*Compliance and Other Matters*

As part of obtaining reasonable assurance about whether the PACE Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the North Dakota Industrial Commission, Legislative Audit and Fiscal Review Committee and management of the PACE Fund and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Brady Martz". The signature is written in a cursive, flowing style with a long horizontal line extending from the end of the name.

**BRADY, MARTZ & ASSOCIATES, P.C.**

September 17, 2009

**PACE FUND  
AUDITOR'S SPECIFIC COMMENTS REQUESTED BY THE  
NORTH DAKOTA LEGISLATIVE AUDIT AND FISCAL REVIEW COMMITTEE  
YEAR ENDED JUNE 30, 2009**

---

The Industrial Commission  
State of North Dakota  
Bismarck, North Dakota

The Legislative Audit and Fiscal Review Committee requires that certain items be addressed by independent certified public accountants performing audits of state agencies. The items and our responses are as follows:

**Audit Report Communications:**

**1. What type of opinion was issued on the financial statements?**

*An unqualified opinion was issued on the 2009 financial statements.*

**2. Was there compliance with statutes, laws, rules, regulations under which the agency was created and is functioning?**

*Yes - A review was made of Chapters 6-09.14, 17-03 and other pertinent chapters of the North Dakota Century Code and we felt the Agency operated within the statutes, laws, rules and regulations under which it was created.*

**3. Was internal control adequate and functioning effectively?**

*Yes*

**4. Were there any indications of lack of efficiency in financial operations and management of the agency?**

*No*

**5. Has action been taken on findings and recommendations included in prior year audit reports?**

*There were no prior year findings.*

**6. Was a management letter issued? If so, provide a summary below, including any recommendations and the management response.**

*No*

---

**Audit Committee Communications:**

1. **Identify any significant changes in accounting policies, any management conflicts of interest, any contingent liabilities, or any significant unusual transactions.**

*None.*

2. **Identify any significant accounting estimates, the process used by management to formulate the accounting estimates, and the basis for the auditor's conclusions regarding the reasonableness of those estimates.**

*None.*

3. **Identify any significant audit adjustments.**

*None.*

4. **Identify any disagreements with management, whether or not resolved to the auditor's satisfaction, relating to a financial accounting, reporting, or auditing matter that could be significant to the financial statements.**

*None.*

5. **Identify any serious difficulties encountered in performing the audit.**

*None.*

6. **Identify any major issues discussed with management prior to retention.**

*None.*

7. **Identify any management consultations with other accountants about auditing and accounting matters.**

*None.*

8. **Identify any high-risk technology systems critical to operations based on the auditor's overall assessment of the importance of the system to the agency and its mission, or whether any exceptions identified in the six report questions to be addressed by auditors are directly related to the operations of an information technology system.**

*Based on the audit procedures performed, the PACE Fund's critical information technology system is the Information Technology Inc. (ITI) system. There were no exceptions identified that were directly related to this application.*

This report is intended solely for the information and use of the North Dakota Industrial Commission, Legislative Audit and Fiscal Review Committee and management, and is not intended to be and should not be used by anyone other than these specified parties.

*Brady, Martz*

**BRADY, MARTZ & ASSOCIATES, P.C.**

September 17, 2009

**INDEPENDENT AUDITOR'S COMMUNICATION  
TO THE INDUSTRIAL COMMISSION OF NORTH DAKOTA**

---

To the Industrial Commission  
State of North Dakota  
Bismarck, North Dakota

We have audited the financial statements of the PACE Fund for the year ended June 30, 2009. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and, *Government Auditing Standards* as well as certain information related to the planned scope and timing of our audit. We have communicated such information to you in August 2009. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

*Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the PACE Fund are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2009. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

*Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

*Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.



*Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

*Management Representations*

We have requested certain representations from management that are included in the management representation letter dated September 17, 2009.

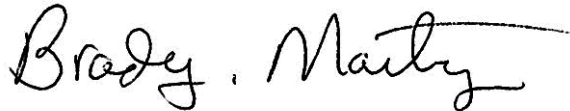
*Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

*Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This letter is intended solely for the information and use of the North Dakota Industrial Commission and management of the PACE Fund, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Brady Martz". The signature is written in a cursive, flowing style.

**BRADY, MARTZ & ASSOCIATES, P.C.**

September 17, 2009